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TREASURY PASS TO CATHERINE DOWNARD, VICKIE ALVO

E.O. 12958: DECL: 11/19/2016

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SUBJECT: TREASURY DEPUTY SECRETARY KIMMITT-ROKG TALKS ON
THE BANCO DELTA ASIA CASE AND IRAN

REF: STATE 181094

Classified By: Amb. Alexander Vershbow. Reasons: 1.4 (b/d)

¶1. (C) Summary: On November 8, Treasury Deputy Secretary Robert Kimmitt met Foreign Minister-Designate Song Min-soon and other ROKG officials to review the DPRK's Banco Delta Asia (BDA) case -- and alert them to similar law enforcement problems created by Iranian financial entities. (These talks were conducted in tandem with discussions on the International Compact with Iraq reported septel.) FonMin-designate Song took on board the importance and necessity of U.S. law enforcement action against BDA but predicted the DPRK would strive to link progress in the Six-Party Talks to progress in resolving the BDA issue. Other ROKG officials warned the DPRK might press for a clear "timetable" to resolve the BDA case in order for Pyongyang to stay actively engaged in the Six-Party Talks over time. End Summary.

¶2. (C) On November 8, Treasury Deputy Secretary Kimmitt separately called on Ministry of Foreign Affairs and Trade (MOFAT) Special Representative for Korean Peninsula Peace and Security Affairs Chun Yung-woo, Deputy Prime Minister (and Minister of Finance and Economy) Kwon O-kyu, and National Security Advisor/Foreign Minister-designate Song Min-soon. This cable reports the Deputy Secretary's key points on BDA and Iran in meetings with these interlocutors and their respective responses.

DPRK's Banco Delta Asia (BDA) and Iran

¶3. (C) Deputy Secretary Kimmitt began by reaffirming the U.S. and Korea's common interests in North-East Asian security and noting that the U.S. had no closer ally than Korea. In this context, D/S Kimmitt described the BDA case as flowing from the Treasury Department's legal obligation to keep the global financial system safe, sound and secure from counterfeiters, weapons proliferators, terrorists and other criminals. He stressed that the BDA investigation was launched under specific U.S. law enforcement statutes that were "conduct-specific" and not "country-specific." Similar Treasury enforcement actions had been launched against a Dutch bank in the Middle East as well as other banks in Latvia and Latin American countries. D/S Kimmitt took pains to draw a clear distinction between Treasury's specific BDA investigation and actions that could be taken against the DPRK by UN members pursuant to the political decisions embodied in UNSCR 1695 and 1718.

¶4. (C) D/S Kimmitt noted that Macau, Hong Kong, and PRC

authorities were closely cooperating with the U.S. in the BDA and related banking investigations. He mentioned the BDA discussions with the DPRK that had taken place in New York last March, and that the U.S. Treasury Department stood ready to reactivate those bilateral discussions. We were able to lay out our case regarding BDA accounts linked to North Korean entities that committed counterfeiting, smuggling, and WMD-related crimes.

15. (C) On Iran, D/S Kimmitt spotlighted Iran's continued involvement in state-sponsored terrorism and WMD development. He affirmed that the international community needed to show a unified enforcement front against these activities. In light of the difficulty in separating a credible business partner from a WMD-acquisition or terrorist program, Treasury would continue to work with ROKG authorities to provide information to help Korean banks avoid involvement in these activities. D/S Kimmitt stressed that the U.S. would enhance information exchanges to advance these enforcement goals in the future.

Special Representative Chun

16. (C) In response, MOFAT Special Representative for Korean Peninsula Peace and Security Affairs Chun Yung-woo recognized the U.S. sovereign right to combat illicit DPRK activities. He noted, however, that the North Korean government viewed the BDA investigation as part of a broad U.S. policy of hostility toward the DPRK. In particular, DPRK authorities saw the BDA investigation -- announced only four days before the September 19 agreement -- as part of a broad U.S. plan to strangle the Kim Jong-il regime. Chun indicated the DPRK might therefore try to use the BDA investigation as a new pretext to walk away from the Six-Party Talks and continue to

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build up its nuclear stockpile.

17. (C) Chun predicted the DPRK would come into the Six-Party Talks focused on the BDA case and would not move seriously on denuclearization until it was convinced the BDA case could be resolved in a certain period of time. Chun therefore suggested the U.S. "show the DPRK a way out" of the investigation by giving them a time line for the investigation's follow-through, outlining what they needed to do, and identifying which specific bank accounts could not be returned under U.S. law and UNSCR 1695. If this was not possible, Chun opined the BDA case could quickly constitute a "make-or-break" issue for the continuation of the Six-Party Talks, just as the Talks were regaining world attention as a credible dispute-settlement mechanism.

18. (C) D/S Kimmitt responded that the BDA case would be handled in a separate bilateral channel that focused on enforcement issues raised last March with the DPRK. He reiterated that progress had been made to date with PRC, Macanese, and Hong Kong authorities. Chun speculated that the PRC might try to desegregate accounts and return funds to the DPRK ahead of U.S. determinations, but noted as well that the PRC was also concerned about the U.S. reaction. As a result, Chun urged the U.S. to encourage the PRC to take any action the PRC thought was well grounded in fact. D/S Kimmitt repeated that PRC cooperation to date had been solid, adding that the U.S. would keep the channels open on the status of the investigation. D/S Kimmitt noted BDA accounts were also tied to UNSCR 1695 and 1718 enforcement and other legal authorities and therefore the scope of investigation could not be limited, regardless of the country pursuing the investigation. To date, multiple BDA accounts had been identified as illicit funding sites.

DPM (and Finance and Economy Minister) Kwon

19. (C) DPM Kwon O-kyu was restrained in his comments on the BDA and potential Iranian cases. He noted his Ministry had recently completed its audit before the National Assembly

(NA). NA members had inquired into BDA remittances from Korean banks. While names and specific foreign exchange transactions were not reviewed, the total amount of such transactions was reported to the Assembly. To date in 2006, only USD 7 thousand had been remitted to BDA compared to USD 136 million in the period from 1999 to 2005. Kwon added that the ROKG was awaiting the UN sanctions committee's determination of the specific banks with which Korean companies should not conduct foreign exchange transactions.

National Security Advisor Song

¶10. (C) Addressing the BDA case, National Security Advisor and Foreign Minister-designate Song said he wanted to correct the "wrong perception" that the ROKG was not concerned about North Korea's illegal financial activity. He noted South Korea was the most vulnerable party and first casualty in such illicit programs involving the counterfeiting of U.S. currency as well as cashiers' checks that amounted to billions of won annually. As a result, the ROKG supported resolute enforcement actions that would redress the problem and safeguard the integrity of the global financial system.

¶11. (C) Song argued, however, that any "prolongation" of the BDA investigation threatened to give the DPRK a pretext to derail talks on the dismantlement of its nuclear program. He therefore recommended that the U.S. carefully weigh a resolution of BDA or a clear timetable for its resolution before the Six-Party Talks resumed. Kimmitt noted, and Song agreed, that no such preconditions had been set for restarting the talks. Nonetheless, Song emphasized, if the DPRK perceived the BDA and related investigations to be "endless," they would become a high hurdle to the continuation of talks.

¶12. (C) D/S Kimmitt responded that the U.S. was ready to reactivate bilateral talks with the DPRK. We stood ready to explain our investigative process, address any DPRK questions, and make clear what had to be done to safeguard BDA's financial transactions in the future. This investigation led by the Department of the Treasury would move forward as quickly as possible.

¶13. (C) Song said that a DPRK official had recently confided to him that North Korea might have criminal organizations

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unknown to the DPRKG who were involved in the BDA case. Song then returned to the theme that Six-Party Talks were designed to meet the overarching security imperative of preventing a nuclear-arms race in Northeast Asia and Asia as a whole and therefore should not be handicapped as they strove to regain momentum. Song noted that ROK Vice Minister Yu Myung-Hwan had recently speculated on an early end to the U.S. BDA investigation, but was not seeking to prejudge U.S. decisions.

¶14. (C) D/S Kimmitt replied that both Korea and the U.S. should be careful what is said publicly about the BDA case. We did not want to try the case in public, but the U.S. welcomed ongoing confidential discussions with the ROKG on the implications of the BDA case for the Six-Party Talks. We should acknowledge that the BDA case was proceeding in a separate but related channel to the talks.

¶15. (C) In closing, D/S Kimmitt reaffirmed U.S. readiness to discuss BDA legal issues, the freezing of specific bank accounts, and possible timelines for the course of investigative work but only in private with the ROKG, thereby "deflating" the enforcement issue in a press that Song agreed was hyper-politicized. (Note: Korean press played up the BDA issue in connection with the Deputy Secretary's visit, just as he arrived in Seoul. End note.) Both Song and D/S Kimmitt agreed on the need to "deflate" the issue in the press as Six-Party Talks ramped up to resume.

¶16. (U) Deputy Secretary Kimmitt cleared this cable.
VERSHBOW